

## Message Text

CONFIDENTIAL

PAGE 01 LONDON 03780 01 OF 05 111923Z

67

ACTION OES-02

INFO OCT-01 SS-14 ISO-00 EUR-08 ERDA-05 NSC-05 NSCE-00

CIAE-00 DODE-00 PM-03 INR-05 PRS-01 ACDA-10 L-01 IO-03

ERDE-00 EB-03 ARA-06 AF-04 EA-06 NEA-06 H-01 /084 W

----- 127505

P 111910Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 9179

C O N F I D E N T I A L SECTION 01 OF 05 LONDON 03780

LIMDIS

OES FOR BLOOM, ERDA FOR VANDERRYN

E.O. 11652: GDS

TAGS: TECH, UK

SUBJECT: IEA: ENERGY R&D GUIDELINES FOR ENERGY R&D  
SUBGROUP

1. DR. WALTER MARSHALL HAS GIVEN US COPY OF PAPER ON  
COMMERCIAL PARTICIPATION FOR DISCUSSION AT MARCH 18-19  
MEETING OF US, UK AND FRG REPRESENTATIVES IN LONDON.  
HE HOPES TO ENLARGE ON GENERAL IDEAS EXPRESSED AT FORTH-  
COMING MEETING.

2. TEXT FOLLOWS:

"CONSORTIA FOR ENERGY RESEARCH AND DEVELOPMENT  
DISCUSSION PAPER BY  
W. MARSHALL

THE VIEWS EXPRESSED IN THIS PAPER ARE PUT UP ONLY FOR  
DISCUSSION; THEY ARE PERSONAL TO ME AND DO NOT NECES-  
SARILY REPRESENT THE FORMAL VIEWS OF THE UNITED KINGDOM  
GOVERNMENT.

INTRODUCTION

1. THE IEA HAS SEVERAL OBJECTIVES BUT ALL CAN BE SUMMED  
UP BY THE PHRASE:- "TO REDUCE THE DEPENDENCE OF MEMBER  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 03780 01 OF 05 111923Z

STATES ON OIL IMPORTS FROM OPEC COUNTRIES IN THE SHORT

TERM, AND TO ENCOURAGE ALTERNATIVE ENERGY PRODUCTION AND THE MORE RATIONAL USE OF ENERGY IN THE LONG TERM."

SECRETARY OF STATE KISSINGER HAS MADE IMPORTANT SUGGESTIONS TOWARDS MEETING THIS AIM AND SOME OF THEM WERE ELABORATED BY ASSISTANT SECRETARY ENDERS IN A STATEMENT TO THE IEA GOVERNING BOARD ON THE 5TH FEBRUARY 1975 AND 6TH FEBRUARY 1975. IN THE LATTER STATEMENT ENDERS SAID:-

"MY DELEGATION IS PREPARED TO DEVELOP THESE IDEAS AND WILL WELCOME THE SUGGESTIONS OF OTHER DELEGATIONS. WE EXPECT THAT WE SHALL WITHIN THE NEXT TEN YEARS, BY MEANS OF THIS KIND OF APPROACH, BE ABLE TO GO FAR BEYOND WHAT WE CAN SEE TODAY IN TERMS OF THE POSSIBILITIES FOR DEVELOPMENT OF ENERGY RESOURCES."

THE PURPOSE OF THIS PAPER IS TO GIVE WHAT I HOPE WILL BE SEEN AS A CONSTRUCTIVE APPROACH TO ENDERS' INVITATION, WITH SPECIAL EMPHASIS ON THE PROBLEMS OF ENERGY R&D AS IT APPROACHES COMMERCIALISATION.

2. THE PROBLEMS OF HARMONISING INTERNATIONAL ENERGY R&D WERE, IN FACT, DESCRIBED IN OUTLINE IN ENDERS' STATEMENTS AND ELABORATED FURTHER IN THE PAPER PRESENTED BY THE UNITED STATES DELEGATION ON THE 19TH FEBRUARY 1975 TO THE STANDING COMMITTEE ON LONG TERM CO-OPERATION. IN THIS PAPER THE UNITED STATES PROPOSED THE FORMATION OF TWO CONSORTIA, ONE ON ENERGY R&D AND ANOTHER ON SYNTHETIC FUELS, BUT ON CLOSE EXAMINATION IT WAS HARD TO SEE THE DISTINCTION BETWEEN THESE CONSORTIA AND THE EXISTING IEA SUB-GROUP ON ENERGY R&D. THE JOINT DISCUSSION HELD ON THE 20TH FEBRUARY 1975, BETWEEN THE STANDING GROUP ON LONG TERM CO-OPERATION AND THE ENERGY R&D SUB-GROUP SUGGESTED THAT INDIVIDUAL CONSORTIA ON INDIVIDUAL SUBJECTS MIGHT BE A MORE APPROPRIATE DESCRIPTION OF WHAT WAS NEEDED, AND THE SENSE OF THIS WAS SUBSEQUENTLY CONFIRMED BY THE FURTHER NOTE FROM THE US DELEGATION DESCRIBING A MODEL AGREEMENT.

3. AS A RESEARCH SCIENTIST I SYMPATHIZE WITH THE WISH OF THE USA TO DESCRIBE SOMETHING MORE THAN A MERE "SUB-GROUP", BUT I DO NOT ON THIS OCCASION WISH TO CONFUSE PEOPLE BY NOTATION, AND THEREFORE I SHALL CONTINUE TO USE THE NOMENCLATURE OF "R&D GROUP" TO DESCRIBE THE PRESENT OPEN IEA ASSOCIATION ON ENERGY R&D. I SHALL RESERVE THE CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 03780 01 OF 05 111923Z

WORD "CONSORTIUM" TO DESCRIBE A MORE LIMITED GROUPING INVOLVING BOTH PUBLIC AND PRIVATE INTERESTS AND FUNDING, AND THE HANDLING OF PROPRIETARY INFORMATION OF COMMERCIAL VALUE. EACH INDIVIDUAL CONSORTIUM MIGHT BE ENTIRELY WITHIN THE IEA MEMBER COUNTRIES OR INVOLVE OTHER GOVERNMENTS OR COMMERCIAL INTERESTS AS SEEMS APPROPRIATE IN EACH CASE.  
THE PROBLEM

4. INTERNATIONAL R&D ON BASIC RESEARCH IS NOT AT ALL DIFFICULT BECAUSE INFORMATION EXCHANGE IS AUTOMATIC AND EASY AND THE ONLY FUNDS INVOLVED ARE GOVERNMENT FUNDS, SO QUESTIONS OF PROPRIETARY RIGHTS ARE BOTH INAPPROPRIATE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 03780 02 OF 05 111933Z

67

ACTION OES-02

INFO OCT-01 SS-14 ISO-00 EUR-08 ERDA-05 NSC-05 NSCE-00

CIAE-00 DODE-00 PM-03 INR-05 PRS-01 ACDA-10 L-01 IO-03

ERDE-00 EB-03 ARA-06 AF-04 EA-06 NEA-06 H-01 /084 W

----- 127758

P 111910Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 9180

C O N F I D E N T I A L SECTION 02 OF 05 LONDON 03780

LIMDIS

AND DO NOT ARISE ANYWAY.

5. IN FUNDAMENTAL SCIENTIFIC RESEARCH THE EXISTENCE OF PARALLEL PROGRAMMES IN DIFFERENT COUNTRIES IS INVARIABLY SEEN AS ADVANTAGEOUS. THE DIFFERENT APPROACHES AND CROSS CHECKING OF RESULTS FROM THE VARIOUS TEAMS STIMULATES CREATIVE INTERACTIONS WHICH ARE BENEFICIAL TO PROGRESS. THIS IS PARTICULARLY TRUE WHERE NEW SCIENTIFIC DISCIPLINES ARE EVOLVING. HOWEVER, AS THE COST OF SCIENTIFIC RESEARCH INCREASES THIS JUSTIFICATION FOR MULTIPLE TEAMS BECOMES WEAKER AND INTERNATIONAL COLLABORATION BECOMES INCREASINGLY ADVANTAGEOUS.

6. HENCE, EXPENSIVE INTERNATIONAL R&D ON LONG TERM RESEARCH, EVEN WHEN NOT BASIC, IS NOT DIFFICULT TO DO EITHER. FOR THIS REASON EFFORTS SUCH AS CERN AND THE FUSION RESEARCH GROUP OF THE EEC, ARE CLEAR SUCCESSES. AT THE OTHER EXTREME THERE ARE NUMEROUS EXAMPLES OF INTERNATIONAL COLLABORATION ON A PURELY COMMERCIAL BASIS- BECAUSE AN AGREEMENT BETWEEN TWO PRIVATE COMPANIES SATIS-

FIES BOTH AND IS DIRECTED AT A CLEAR MARKET NEED.

7. IN BETWEEN THESE EXTREMES THE PROBLEM ABOUT INTERNATIONAL COLLABORATION IS THAT THE PROGRAMMES ARE DIFFICULT TO PLAN AND CONTROL EFFECTIVELY. IF SEVERAL COUNTRIES CARRY OUT RESEARCH, EACH IN ITS OWN LABORATORIES, EXPERIENCE SHOWS THAT IT IS DIFFICULT TO INTEGRATE THE CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 03780 02 OF 05 111933Z

RESEARCH PROGRAMME AS A COHERENT ENTITY AND DIFFICULT TO PREVENT OVERLAP. THE NEARER THE PROGRAMMES GET TO PRACTICAL APPLICATION THE GREATER THE PROBLEMS BECOME AND THE MORE THERE IS AN INCENTIVE TO SECRECY, EACH PARTICIPANT BEING KEEN TO SAFEGUARD ITS INDIVIDUAL NATIONAL POSITION. NEVERTHELESS, THE COSTS OF, AND NEEDS FOR RESEARCH BEING WHAT THEY ARE, IT IS HIGHLY DESIRABLE TO DEVELOP AN EFFECTIVE METHOD OF INTERNATIONAL COLLABORATION FOR SELECTED CASES.

8. WE NEED TO STIMULATE EVERY COUNTRY'S POTENTIAL TO SOLVE ENERGY PROBLEMS, AND THIS INVOLVES GIVING A DEGREE OF PROTECTION TO EACH COUNTRY'S INVESTMENTS IN R&D IN A SIMILAR WAY AS ASSISTANT SECRETARY ENDERS DESCRIBED THE NECESSITY TO GIVE SOME PROTECTION TO EACH COUNTRY'S LARGE SCALE INVESTMENTS IN NEW ENERGY SOURCES. TO PUT IT ANOTHER WAY, HOW DO WE ACHIEVE A RATIONALISATION BETWEEN THE NORMAL AND HEALTHY MARKET FORCES OF FREE COMPETITION, AND THE POLITICAL DESIRE AND NECESSITY TO COLLABORATE ON ENERGY RESEARCH?

THE CONSORTIUM IDEA

9. I BELIEVE THE APPROACH TO THIS SUBJECT CAN BE MADE BY AGREEING TO FORM CONSORTIA BETWEEN VARIOUS COUNTRIES FOR VARIOUS SUBJECTS. ALMOST CERTAINLY SOME FORM OF CONSORTIUM IS NEEDED WITHIN THE COAL R&D AREA SO LET ME USE THAT AS AN EXAMPLE TO ILLUSTRATE THE IDEA. THE COAL R&D GROUP HAS ALREADY IDENTIFIED THREE MAJOR AREAS OF ACTIVITY:

A) ASSESSMENT OF RESOURCES AND TECHNICAL EXCHANGE OF INFORMATION

B) MINING AND SAFETY RESEARCH AND DEVELOPMENT

C) COAL CONVERSION TECHNOLOGY

10. ITEM A) IS A GOVERNMENT TYPE RESPONSIBILITY; IT IS IN THE INTERESTS OF ALL STATES TO GET GOOD ASSESSMENTS OF THE ENORMOUS COAL RESERVES OF THE WORLD. IT IS AN APPROPRIATE SUBJECT FOR THE ENERGY R&D GROUP TO LOOK AT DIRECTLY AND PROBABLY NEEDS A LEAD COUNTRY OR ORGANIZATION TO TAKE THE INITIATIVE IN THE SUBJECT AND OTHER COUNTRIES TO GIVE A SIGNIFICANT DEGREE OF COLLABORATION. THE COSTS OF THE EXERCISE ARE, HOWEVER, NOT LARGE SO THE MAJOR FACTOR WE SHOULD ENSURE IS THAT THE WORK IS DONE WELL AND NOT SPEND TOO MUCH TIME ARGUING ABOUT WHO SHOULD DO IT OR WHO CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 03780 02 OF 05 111933Z

SHOULD PAY FOR IT.

11. ITEM B) MUST BE LOOKED AT WITHIN EACH COUNTRY SEPARATELY (IF THEY HAVE COAL) OR, I THINK, INTERNATIONAL COLLABORATION SHOULD BE CONFINED TO THE EXCHANGE OF INFORMATION AND EXPERIENCE, AND OCCASIONALLY THE SALE OF MINING EQUIPMENT IN THE FREE MARKET IN THE NORMAL WAY. THE BASIC REASON WHY THIS IS SO IS VERY SIMPLE: THE MINING SITUATIONS IN EACH COUNTRY ARE DIFFERENT. LOCAL SITUATIONS IN MINING DEMAND LOCAL SOLUTIONS IN MINING TECHNOLOGY.

12. ITEM C) IS, HOWEVER, QUITE DIFFERENT. EVERYONE AGREES THAT COAL CONVERSION IS IMPORTANT BECAUSE COAL WILL LONG OUTLAST OIL. HOWEVER, THE LOGIC OF THE MARKET PLACE DICTATES THAT ALL OF US, EXCEPT THE USA, SHOULD DO NOTHING IN THIS AREA AND SIMPLY TAKE LICENCES WHEN WE NEED THEM FOR PROVEN TECHNOLOGY FROM THE USA. THE REASONS FOR THIS NEGATIVE POINT OF VIEW ARE OBVIOUS: THE MAJOR MARKET FOR COAL CONVERSION IS IN THE USA--WHICH HAS AN ABUNDANCE OF CHEAP, EASILY ACCESSIBLE COAL--SO WHATEVER

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 03780 03 OF 05 112023Z

67

ACTION OES-02

INFO OCT-01 SS-14 ISO-00 EUR-08 ERDA-05 NSC-05 NSCE-00

CIAE-00 DODE-00 PM-03 INR-05 PRS-01 ACDA-10 L-01 IO-03

ERDE-00 EB-03 ARA-06 AF-04 EA-06 NEA-06 H-01 /084 W

----- 128466

P 111910Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 9181

C O N F I D E N T I A L SECTION 03 OF 05 LONDON 03780

LIMDIS

IS DONE ELSEWHERE WILL BE SWAMPED BY MASSIVE US INVESTMENTS IN IDENTICAL SUBJECTS.

13. TO AVOID THIS NEGATIVE SITUATION, AND TO STIMULATE AS MUCH VALUABLE RESEARCH AS IS JUSTIFIED, WE NEED TO FORM A "COAL-CONVERSION CONSORTIUM". SUCH A CONSORTIUM MIGHT WELL INVOLVE ONLY THREE COUNTRIES, SAY, THE USA, GERMANY AND THE UK, SINCE THEY ARE THE THREE IEA STATES WITH MAJOR COAL RESERVES, WHO, ON FLUIDISED COMBUSTION, MIGHT AGREE AS FOLLOWS: THE USA WOULD BUILD SEVERAL DEMONSTRATION PLANTS OF VARIOUS DESIGNS WITH A MIXTURE OF GOVERNMENT AND PRIVATE FUNDS. GERMANY WOULD SIMILARLY BUILD DEMONSTRATION PLANTS APPROPRIATE TO THE USE OF LIQUID FUEL. THE UK WOULD BUILD A GENERAL TEST FACILITY. EACH DECISION WOULD PROPERLY REPRESENT THE POSITION AND MAIN INTERESTS OF EACH COUNTRY AND BASICALLY THE "CONSORTIUM" WOULD MERELY BE AN AGREEMENT TO RATIONALISE R&D EFFORTS AND TO CO-OPERATE IN PLANNING WHAT WAS TO BE DONE. IT WOULD STILL BE TRUE THAT IF THE UK OR GERMANY, OR ANY OTHER COUNTRY, WANTED TO REPRODUCE THE USA DEMONSTRATION PLANTS, THEY WOULD TAKE LICENCES FROM THE USA. SIMILARLY, IF ANY COUNTRY WANTED TO USE LIQUID FUEL THEY WOULD TAKE LICENCES FROM GERMANY, AND IF THEY WANTED TO TEST NEW IDEAS THEY WOULD USE THE UK PLANT ON REPAYMENT. ESSENTIALLY THE CONSORTIUM WOULD BE AN AGREEMENT TO ACHIEVE

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 03780 03 OF 05 112023Z

RATIONALISATION OF R&D BY AGREEING TO CO-OPERATE IN A PLANNED WAY, INSTEAD OF COMPETING AS HARD AS POSSIBLE AS WORK APPROACHED COMMERCIALISATION. ON THE OTHER HAND IT IS ESSENTIAL THAT EACH COUNTRY BE GIVEN AN OPPORTUNITY TO INVEST (IF THEY WISH) IN THE ENTERPRISES OF THE OTHER COUNTRIES. THUS, THE UK COULD, IF IT WISHED, INVEST IN ONE OR MORE USA OR GERMAN DEMONSTRATION PLANT, AND SHARE IN THE BENEFITS (IF SUCCESSFUL) ACCORDINGLY, OR THE USA AND GERMANY COULD (IF THEY WISHED) CONTRIBUTE TO THE UK TEST PLANT AND BENEFIT ACCORDINGLY (ASSUMING IT TURNED OUT TO BE USEFUL).

14. I THINK THIS EXAMPLE MAKES IT CLEAR THAT EACH CONSORTIUM WOULD NEED TO BE BUILT UP INDIVIDUALLY, DEPENDING ON THE POSITIONS, RESOURCES AND MARKET OPPORTUNITIES OF EACH STATE. HOWEVER, AS I SEE IT, EACH CONSORTIUM WOULD HAVE THE FOLLOWING COMMON FEATURES:

A) THE STATES INSIDE THE CONSORTIUM WOULD CONTRIBUTE SUBSTANTIALLY TO THE R&D SPEND, AND THOSE OUTSIDE WOULD CONTRIBUTE NOTHING.

B) THE STATES INSIDE THE CONSORTIUM WOULD COME TOGETHER VOLUNTARILY TO RATIONALIZE THEIR R&D INVESTMENT.

C) THE GENERAL RESULTS OF THE CONSORTIUM WOULD BE MADE AVAILABLE TO ALL IEA MEMBER STATES (AND OTHERS) BUT INFORMATION OF A PROPRIETARY NATURE WOULD BE LICENCED WITHIN AND OUTSIDE THE IEA.

D) INVESTMENT BY GOVERNMENTS AND PRIVATE INTERESTS WOULD BE INVOLVED SIMULTANEOUSLY.

E) THE GENERAL IDEA WOULD BE TO OPEN UP A WORLD MARKET TO ANY ENERGY R&D IDEA (IF SUCCESSFUL) AND IN THIS WAY PROVIDE A DEGREE OF "PROTECTION" TO EACH R&D INVESTMENT. IN SHORT THE GOVERNMENTS FORMING A CONSORTIUM WOULD AVOID DUPLICATING EACH OTHERS WORK WHILE ACCEPTING THE RISK OF PRIVATE FUNDING IN PRIVATE INDUSTRY DOING JUST THAT.

#### MARKET ACCESSIBILITY

15. THE IDEAS IN THIS PAPER ARE CERTAINLY USELESS UNLESS THE PROBLEM OF "MARKET ACCESSIBILITY" IS SOLVED. DR. KISSINGER AND ASSISTANT SECRETARY ENDERS HAVE, IN THEIR DISCUSSIONS, ADVOCATED A "FLOOR PRICE" TO ENSURE THIS. HOWEVER, THEIR IDEAS DO NOT, I THINK, NECESSARILY SOLVE CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 03780 03 OF 05 112023Z

THE PROBLEM AND THE REMAINDER OF THIS PAPER DISCUSSES A MODIFICATION OF THEIR IDEAS WHICH MIGHT POSSIBLY DO BETTER.

#### FLOOR PRICE FOR OIL

16. THE IDEA OF A FLOOR PRICE HAS BEEN EXTENSIVELY DEBATED IN THE IEA AND HAS ARGUMENTS FOR AND AGAINST AS FOLLOWS:

- FOR - ALL DOMESTIC INVESTORS COVERED AGAINST A DROP IN OPEC PRICES;
- RAPID PROTECTION;
  - A FLOOR PRICE WOULD SUPPORT THE CONSERVATION OBJECTIVE OF THE IEA, DEPENDING ON THE LEVEL OF THE FLOOR PRICE;
  - IT WOULD BE A VISIBLE SIGN OF SOLIDARITY IN THE AGENCY.
- AGAINST - IT MIGHT CAUSE OPEC TO KEEP UP ITS PRICES AND, TO THAT EXTENT, WOULD WEAKEN THE NEGOTIATING POSITION OF THE CONSUMER COUNTRIES;
- THE PRICE COULD CAUSE DISTORTIONS IN INTERNA-

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 03780 04 OF 05 111939Z

67

ACTION OES-02

INFO OCT-01 SS-14 ISO-00 EUR-08 ERDA-05 NSC-05 NSCE-00

CIAE-00 DODE-00 PM-03 INR-05 PRS-01 ACDA-10 L-01 IO-03

ERDE-00 EB-03 ARA-06 AF-04 EA-06 NEA-06 H-01 /084 W

----- 127783

P 111910Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 9182

C O N F I D E N T I A L SECTION 04 OF 05 LONDON 03780

LIMDIS

TIONAL TRADE;

- THE SYSTEM WOULD FAVOR THE ENERGY-RICH AS OPPOSED TO THE ENERGY-POOR COUNTRIES (E.G., PRODUCERS IN ENERGY-RICH COUNTRIES MIGHT ACQUIRE WINDFALL PROFITS BY EXPLOITING A CHEAP SOURCE OF ENERGY) AND WOULD BE A HEAVY (INDIRECT) BURDEN ON THE BALANCE OF PAYMENTS IF THE WORLD OIL PRICE FALLS BELOW THE LEVEL OF THE FLOOR PRICE SUBSTANTIALLY.

17. I THINK THE GENERAL CONCEPT OF A FLOOR PRICE IS VALUABLE BUT I THINK THERE IS ONE ADDITIONAL ARGUMENT AGAINST IT. IF OUR CONSERVATION MEASURES ARE SUCCESSFUL, AND IF MARKET THINKING TEACHES US, THEN OUR EXPENSIVE R&D EFFORT AND OUR EVEN MORE EXPENSIVE INVESTMENT IN ALTERNATIVE SOURCES OF ENERGY WILL SIMPLY PRODUCE MORE OIL WHICH SIMILARLY REMAINS UNSOLD (OR marginally UNDERCUT). THE PLAIN FACT IS THAT A FLOOR PRICE DOES NOT GUARANTEE A MARKET FOR A NEW AND EXPENSIVE SOURCE OF OIL. FURTHERMORE THE FLOOR PRICE, AS DEFINED AT PRESENT, CANNOT BE REDUCED AND SO SOME PART OF THE FORCE OF THE MARKET PLACE IS LOST. THEREFORE I WOULD PREFER A MODIFIED CONCEPT WHICH I SHALL CALL "THE FLOATING FLOOR PRICE".

18. TO EXPLAIN THIS IDEA LET US FIRST CONCENTRATE EXCLUSIVELY ON OIL AND OIL PRODUCTS, WHETHER IMPORTED,  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 03780 04 OF 05 111939Z

OBTAINED DOMESTICALLY OR SYNTHESISED FROM COAL. LET US THEN LIST ALL SOURCES OF OIL AS "CHEAP COST OIL" OR "HIGH



COST OIL". THE BOUNDARY MIGHT WELL COME TO SAY \$5. THEN

CHEAP COST OIL MIGHT CONSIST OF:

OIL IMPORTS FROM OPEC.

OIL FROM EXISTING OIL WELLS IN THE USA.

OIL FROM ALASKA.

OIL FROM LARGE RESERVOIRS IN THE NORTH SEA.

WHEREAS HIGH COST OIL MIGHT CONSIST OF:

OIL FROM COAL CONVERSION.

OIL DERIVED FROM SHALE SANDS.

OIL FROM SMALL RESERVOIRS IN THE NORTH SEA.

OIL FROM BENEATH DEEP SEAS.

19. SUPPOSE THEN THAT EACH STATE IN THE IEA AGREES TO A STATEMENT ALONG THE LINES:

"FROM 1980 ONWARDS ALL OIL USED IN THIS STATE MUST BE BLENDED WITH AT LEAST 10 PERCENT OF OIL FROM HIGH COST SOURCES".

SUCH A STATEMENT WOULD BE CLOSELY ANALOGOUS TO THE ENVIRONMENTAL LAWS WHICH HAVE BEEN PASSED IN SEVERAL STATES RECENTLY, WHICH HAVE BEEN WORDED (IN PARAPHRASE).

"FROM THE YEAR X ONWARDS ALL OIL USED IN THIS STATE MUST BE FREE OF LEAD AND HAVE SULPHUR REMOVED DOWN TO A DEFINED LEVEL".

20. THE ENVIRONMENTAL LAWS FORCE CHANGES IN INDUSTRIAL PRACTICE WHICH THE MARKET PLACE, ACTING BY ITSELF, WOULD NOT PRODUCE. THE ADVANTAGES OF THIS "FLOATING FLOOR PRICE" OVER A "FIXED FLOOR PRICE" WOULD BE:

(1) IF THE INTERNATIONAL PRICE OF OIL DROPPED TO THE BOUNDARY POINT OF \$5 A BARREL, ALL COUNTRIES WOULD BENEFIT BECAUSE THE AVERAGE COST OF OIL WOULD FLOAT DOWN ACCORDINGLY (ONLY 10 PERCENT COMES FROM HIGH COST SOURCES).

(2) NO MATTER WHAT HAPPENS TO THE SUPPLY OF CHEAP OIL, THE INVESTMENTS IN "HIGH COST OIL" ARE PROTECTED BECAUSE 10 PERCENT OF THE MARKET IS GUARANTEED.

(3) THE USE OF CHEAP OIL (PRIMARILY OPEC OIL) IS NECESSARILY REDUCED BY 10 PERCENT.

(4) ONCE THE "HIGH COST OIL" SOURCES HAVE BEEN DE-

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 03780 04 OF 05 111939Z

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 03780 05 OF 05 111937Z

67

ACTION OES-02

INFO OCT-01 SS-14 ISO-00 ERDA-05 NSC-05 NSCE-00 CIAE-00

DODE-00 PM-03 INR-05 PRS-01 ACDA-10 L-01 IO-03 ERDE-00

EB-03 ARA-06 AF-04 EA-06 NEA-06 EUR-08 H-01 /084 W

----- 127830

P 111910Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 9183

C O N F I D E N T I A L SECTION 05 OF 05 LONDON 03780

LIMDIS

VELOPED, NEW OPPORTUNITIES WILL ARISE, FOR EXAMPLE TO INCREASE THE PERCENTAGE TO 20 PERCENT; TO INCREASE THE PERCENTAGE BUT GAIN THE ADVANTAGES OF SCALE-IN PRODUCTION TO REDUCE THE PRICE OF "HIGH COST OIL"; TO HOLD THE PERCENTAGE AT 10 PERCENT IF OPEC OIL PRICES FLOAT DOWN.....

THE DISADVANTAGES OF THE "FLOATING FLOOR PRICE" OVER THE "FIXED FLOOR PRICE" WOULD BE THAT:

(1) THE OPERATION OF THE IDEA DEPENDS UPON ASSESSING COSTS NOT PRICES.

(2) IN PRACTICE SUCH AN IDEALIZED SCHEME WOULD NOT BE EXACTLY APPROPRIATE: DIFFERENT SOURCES OF OIL, ALL OF WHICH THE IEA WOULD LIKE TO SEE DEVELOPED, HAVE DIFFERENT COSTS NOT ALWAYS FORESEEABLE IN ADVANCE, AND THEREFORE THE SIMPLE RULE WOULD BEST BE WORDED TO WEIGHT THE PERCENTAGE OF 10 PERCENT APPROPRIATELY TO THE AVERAGE COST OF THE "HIGH COST OIL" USED BY EACH STATE.

IT IS IN FACT EASY TO CRITICIZE THE "FLOATING FLOOR PRICE" (PERHAPS BETTER NAMED THE "FIXED PERCENTAGE USE") SCHEME. HOWEVER, I THINK IT SHOULD NOT BE DISMISSED TOO EASILY BECAUSE THE PRESENT "FIXED FLOOR PRICE" SCHEME ALSO HAS DIFFICULTIES.

21. THE IDEA CAN BE EXTENDED TO ENERGY SOURCES OTHER  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 03780 05 OF 05 111937Z

THAN OIL, BUT I SHALL NOT ELABORATE THE IDEA HERE."

RICHARDSON

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ENERGY, INSTRUCTIONS, PETROLEUM, RESEARCH, IMPORTS, MEETINGS, MEETING PROCEEDINGS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 11 MAR 1975  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** KelleyW0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975LONDON03780  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750085-0420  
**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750363/aaaaceiz.tel  
**Line Count:** 547  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION OES  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** LIMDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 10  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** LIMDIS  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** KelleyW0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 20 JUN 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <20 JUN 2003 by SmithRJ>; APPROVED <05 NOV 2003 by KelleyW0>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** IEA: ENERGY R&D GUIDELINES FOR ENERGY R&D SUBGROUP  
**TAGS:** TECH, UK, US, FR, IEA, (MARSHALL, WALTER)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006